Letter of Transmittal

March 28, 1985

To His Honour
The Honourable
Frederick W. Johnson
Lieutenant-Governor of the
Province of Saskatchewan

Dear Sir:

I have the honour to transmit herewith the annual report of Saskatchewan Mining Development Corporation for the year ending December 31, 1984, including the financial statements in the form requested by the Treasury Board and duly certified by the auditors of the Corporation.

Respectfully submitted,

Eric Berntson
Minister in charge of
Saskatchewan Mining
Development Corporation

Eric Berntson

COVER: A geological cross-section of the high grade uranium deposit at Cigar Lake.

Contents

Message from the
Chairman of the Board 2
Message from the President .. 3
Uranium Markets 6
Operations 8
Exploration 14
Financial Statements 20

A Message from The Chairman of the Board

E.W. (Staff) Barootes

1984 was much more than just SMDC's 10th anniversary year. It marked the emergence of the Corporation as one of the largest uranium producers in the western world. SMDC has earned this leadership position by virtue of its participation in the development of the Key and Cluff Lake projects combined with the successful marketing of the Corporation's share of production. SMDC's proportion of western world production capacity now stands at between 5 and 6%.

With the addition of substantial uranium reserves at the Cigar Lake deposit, SMDC's holdings presently represent approximately 40% of Saskatchewan's total known reserves. Reserve figures such as these reaffirm my comments from last year's Report that SMDC and Saskatchewan are a secure and stable long-term source of uranium fuel supply for electrical utilities around the world.

Increases in energy consumption have resulted in a rising demand for electricity. Nuclear generated electricity's proportion of this increase varies widely from country to country, but in Western Europe, Asia and North America, it gained a larger share. In Canada, nuclear electricity increased by about 3.5%, moving from approximately 8% to nearly 12% of total electrical generation.

The Board has supported the Corporation's pursuit of promising gold properties in northern Saskatchewan. To this end, SMDC has continued to increase the precious metals portion of its exploration budget. This strategy will remain in place for 1985.

During the past year, the Corporation with our partners and the Key Lake Mining Corporation hosted more than 180 international guests who enjoyed a tour to the Key Lake uranium mine and mill in northern Saskatchewan on June 2, 1984. Many guests remained in Saskatoon and joined 350 registrants from more than 16 different countries for the Joint International Nuclear Conference, June 3-5, sponsored by the Canadian Nuclear Association, Canadian Nuclear Society and the Uranium Institute.

As a result of a successful internal restructuring program carried out in 1984, the Board believes that the Corporation is better positioned to pursue its primary objective of consistent and dependable growth. Our thanks to SMDC management and staff for their efforts in this endeavour.

E W Barootes

President's Message

Roy E. Lloyd

Although 1984 remained a difficult year for the mining industry, SMDC's consolidated net earnings were $15.2 million on uranium sales of $133 million from our share of production at the Key and Cluff Lake projects. A dividend of $7.6 million has been declared by the Board of Directors.

The Corporation's uranium reserves have almost doubled over the year, primarily as a result of the delineation drilling on the Cigar Lake project. Gold reserves of 230,000 tons grading 0.5 oz. per ton have been proven on the Star Lake project.

Production in 1984 from the Key Lake Mining Corporation, a joint venture operating company in which SMDC has a 50% interest, was 10.4 million pounds of U_3O_8, about 87% of the design capacity of 12 million pounds. SMDC's share of the product has been either sold and delivered to utility customers or used for repayment of product borrowed in previous years from utilities. SMDC borrowed product in order to secure long-term supply contracts that had delivery requirements prior to the commencement of Key Lake production. SMDC anticipates full production of 12 million pounds from the Key Lake facility in 1985.

1984 was a transition year for Cluff Mining. This project moved into the second phase of its development involving five new orebodies. This required major modifications to the existing mill due to the lower grade mineralization of the Phase II ore. Refitting the mill and the new pit development progressed more rapidly than scheduled with the result that the project was able to achieve production of 1.6 million pounds U_3O_8 in 1984. SMDC has a 20% interest in Cluff Mining; the remainder is owned by the operator, Amok Ltd/Ltée.

SMDC's uranium exploration program continued to follow the pattern of the last two years with the Corporation's efforts concentrated on projects in areas of either proven mineralization or with access to existing milling facilities. This strategy has proven to be most successful. The chart on page 5 illustrates the Corporation's substantial reserves of uranium. The Corporation was also successful in its strategy to attract new investment partners to a number of our projects.

A highlight of the gold exploration program was the Star Lake project, in which the Corporation has a 50% interest. Star Lake showed sufficient promise to justify a predevelopment study during the latter part of the year. SMDC and our partner, Starrex Mining Corporation, are examining the preliminary findings with the intent of reaching a production decision in 1985. Work progressed on other promising gold projects in the La Ronge and Flin Flon areas.

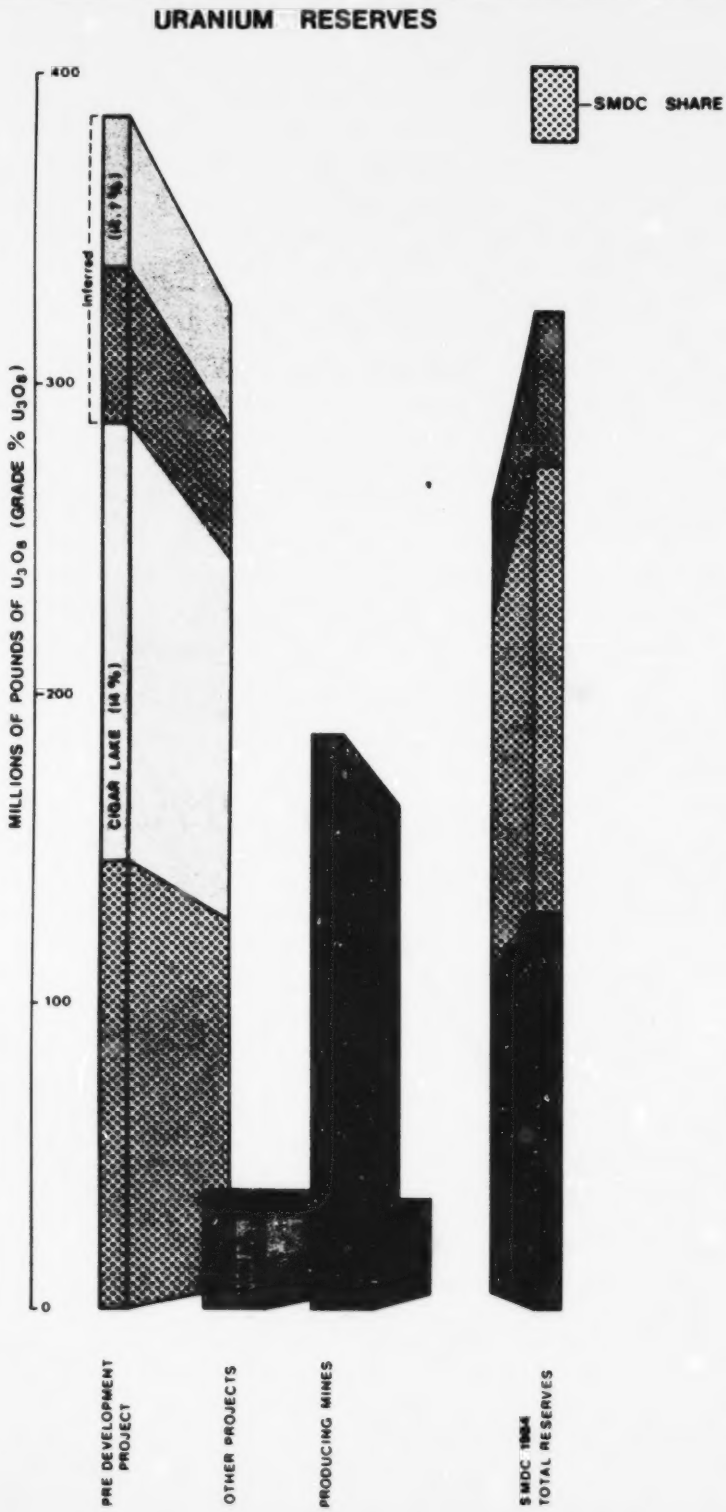
Continued work on the Cigar Lake project confirms this deposit as the world's largest high grade uranium orebody. Located 115 km northeast of the Key Lake mine, the reserve estimates in the main mineralized pod are about 285 million pounds at a grade of 14% U_3O_8. In addition, at its western extension there are inferred reserves in the order of 100 million pounds at a grade of nearly 5% U_3O_8. Such significant new reserves do much to enhance the Corporation's position as one of the most secure long-term suppliers of uranium in the world today. Cigar Lake is an international joint venture in which SMDC is the major shareholder.

World uranium markets continued to be characterized by high inventories and excess productive capacity resulting in a 25% decline in the spot price during the year. The decline in uranium prices did have an adverse effect on the Corporation's 1984 earnings; however, a number of SMDC's uranium contracts are long-term and somewhat insulated from the fluctuation of the short-term market. A strengthening of prices and earnings is anticipated as uranium inventories are depleted and productive capability comes into line with demand.

Contrary to what one reads in the popular press, the nuclear power industry in the western world is alive and well and likely to achieve a compound annual growth rate of 7% through to 1990 and 4 to 5% for the period of 1984 to 1995. New mine capacity will be required early in the next decade to meet this demand. The Cigar Lake project in northern Saskatchewan is well positioned to fill this need. SMDC and the other Cigar Lake partners, Cogema Canada and Idemitsu Uranium Exploration Canada Ltd., agreed to establish the Cigar Lake Mining Corporation (CLMC) as a joint venture operating company

o co-ordinate on-going development studies for the project. Early in 1985, a small project office will be opened in Saskatoon, staffed by experienced specialists from each of the three partners.

Attention to improved productivity and cash conservation is paying off. Over the past years, SMDC's staff has been able to reduce our overhead expenditures substantially, thereby improving the Corporation's bottom line. While the times are challenging, opportunities do exist to ensure the steady growth of the Corporation, given the continued dedication, inventiveness, and initiative of our staff. I wish to thank SMDC's employees for their contributions and co-operation in preparing the Corporation for successful operations into the next decade. Thanks also to the Board of Directors for their continued support, patience and direction during this period of adjustment in the industry.



Uranium Markets

During 1984, 25 nuclear reactors achieved commercial startup, increasing the western world's nuclear electric generating capacity to 190 GWe. By 1990 this will increase to 292 GWe with the completion of the 116 reactors currently under construction for an annual compound growth rate of more than 7% in this time period.

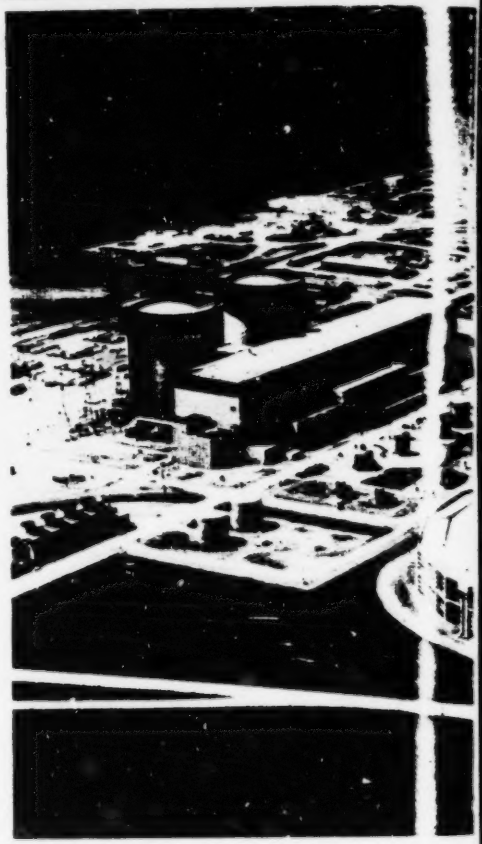
1984 also saw a substantial improvement in reactor operating performance with the average capacity factor increasing to 63% from the 58% experienced during 1983.

Nuclear power accounted for about 13% of the western world's electrical generating capacity in 1984 and by 1990 this share is forecast to rise to 19%. During 1984 Sweden, Belgium, and Finland generated more than 40% of their electricity by nuclear power. In France during the past year, nuclear generation of electricity became the single largest source, accounting for 59% of all electrical production, one third more than in 1983.

Despite this growing market, the uranium industry continued to suffer from production exceeding reactor consumption and from excessive inventories, the bulk of which are held by utilities. Spot prices weakened over the course of the year to close at US $15.25, the lowest price since 1974. Under these conditions there was relatively little new long-term contracting activity. Generally, utilities were content to rely on their inventories and previous commitments or, in some instances, to purchase in the spot market. Some utilities took advantage of the depressed spot market to increase their forward inventory coverage.

A major new development affecting the uranium market was the issuance of the Utility Service enrichment contract by the U.S. Department of Energy (DOE). Most American, Asian, and a few European nuclear electric utilities have converted their existing DOE contracts, enabling them to cancel much of their excess enrichment commitments. Although these adjustments reduce near-term uranium demand, they will ensure that uranium demand is generally in line with reactor requirements by the late 1980's.

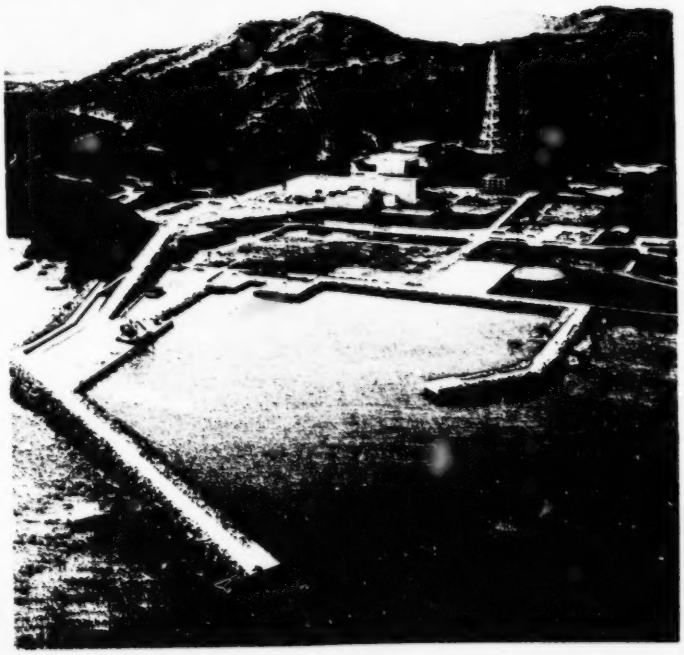
SMDC concluded six near-term sales contracts and one additional long-term contract in 1984. With deliveries under previous commitments and product loan repayments, all of



SMDC's 1984 Key Lake production was sold and most of SMDC's 1985 production is firmly committed. Deliveries were made to electric utility customers in the United States, Canada, Europe, and Asia. Our marketing efforts will continue to concentrate on securing new long-term sales commitments.

The Byron Nuclear Generating Station in Illinois is one of eight nuclear reactors operated by Commonwealth Edison, the largest producer of nuclear electricity in the U.S.A.

Directors of the Swedish State Power Board tour the Key Lake project. Sweden generated more than 40% of its electricity by nuclear power in 1984.



Onagawa Nuclear Power Station, operated by Tohoku Electric Power Company Inc., received its commercial licence in June 1984. Onagawa is Japan's 20th commercial nuclear generating station.

Operations

SMDC's operating mines are located in northern Saskatchewan at Key Lake and Cluff Lake. Key Lake Mining Corporation (KLMC) is a joint venture operating company owned by SMDC (50%), Uranerz Exploration and Mining Limited (33⅓%) and Eldor Resources Limited (16⅔%). Cluff Mining is owned by Amok Ltd./Ltée. (80%) and SMDC (20%) with Amok as operator of the project.

Key Lake

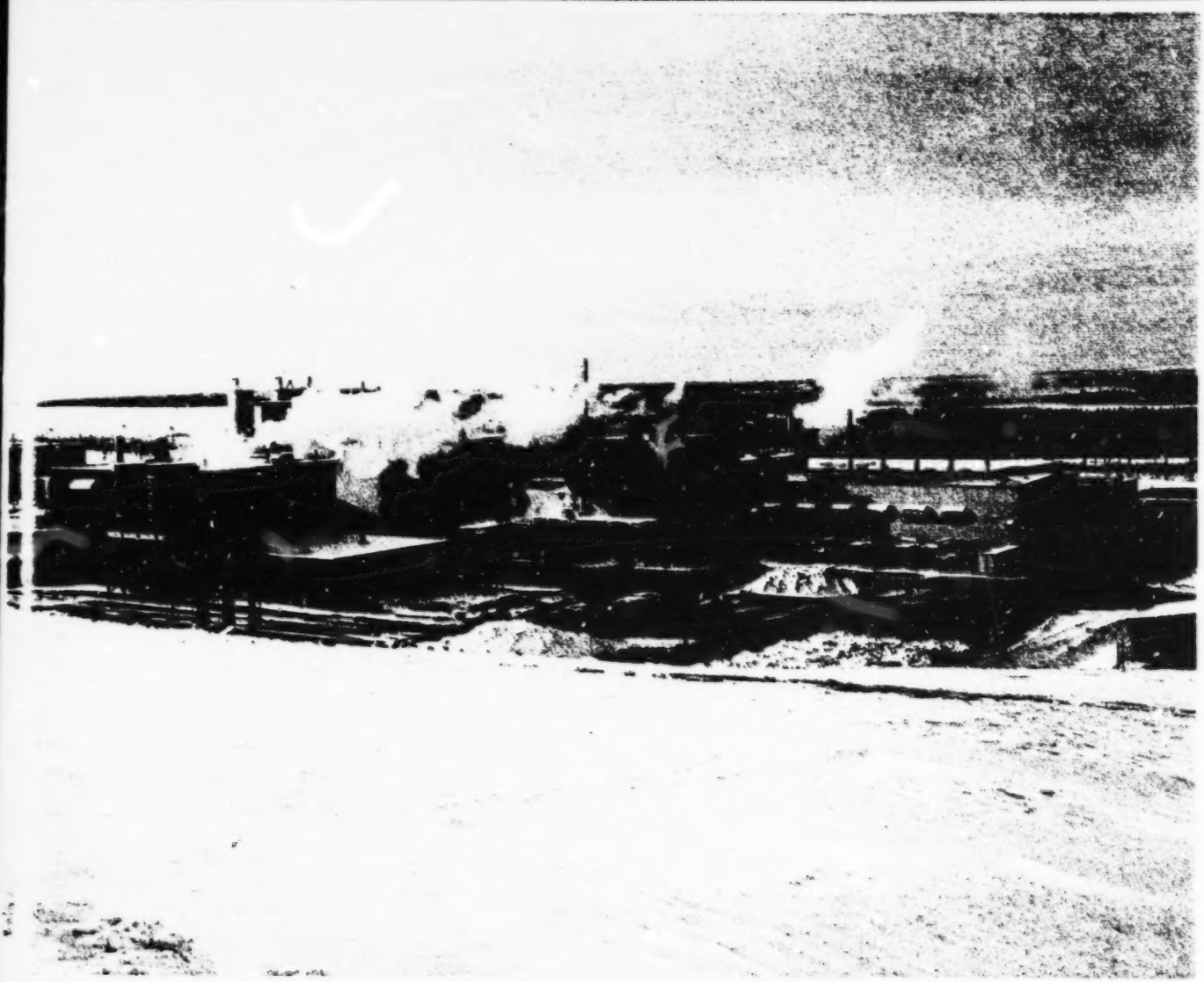
Highlights:

- 1984 production totalled 10.4 million pounds U_3O_8 (4 000 tonnes U).
- Recoverable reserves at Dec. 31, 1984 are 185 million pounds U_3O_8 (71 000 tonnes U).
- Deilmann pit development commenced. Deilmann is the larger of the two orebodies at Key Lake.
- A semi-autogenous grinding (SAG) mill was added to the crushing and grinding plant.
- An ion exchange water treatment process was installed in the bulk neutralization plant.
- Key Lake's owners welcomed more than 180 international guests to the site on June 2, 1984.

The Key Lake project achieved production levels over the last six months of 1984 that averaged over 1 million pounds (384 tonnes U) per month, confirming its position as the world's largest producing uranium mine. The Key Lake mill is expected to produce at its design capacity of 12 million pounds (4 600 tonnes U) in 1985.

Mining in the Gaertner pit concentrated on exposing the orebody and by year-end all bench levels were available for mining primary ore. Approximate total volume removed from the Gaertner pit in 1984 was 1 million Bank Cubic Metres (BCM).

Development began on the Deilmann deposit with the first phase of the dewatering and sand stripping programs. A haul



Mill facility at Key Lake achieved 96.9% recovery of uranium from ore and produced 10.4 million lbs. U_3O_8 in 1984.

Development work begins on the Deilmann deposit at Key Lake.

Gaertner Pit, Key Lake.

road was built connecting the new pit to the crushing and grinding plant. The Deilmann pit will cover a surface area of 83 hectares (205 acres) and reach a depth of 184 m (604 feet). Total volume of sand and till mined in 1984 was 475 000 BCM. Mining of the Deilmann orebody will begin in 1988.

Installation of the SAG mill neared completion at year end. This new grinding circuit will be better situated to handle the clay-rich ore that caused production delays in the past.

An ion exchange water treatment process was added to the bulk neutralization plant. This new process will provide more operating flexibility in handling large volumes of excess water from the pit and mill processes. The operation can now process 10,000 cubic metres (2.2 million gallons) of water per day or double its former capacity.

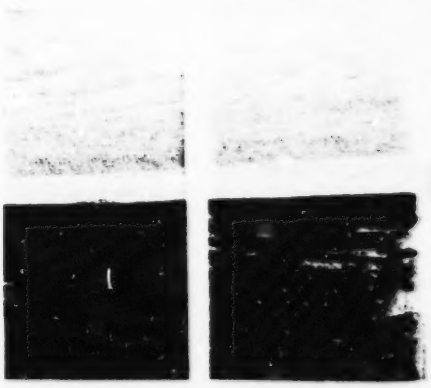
Cluff Mining

Highlights:

- 1984 production totalled approximately 1.6 million pounds U_3O_8 (615 tonnes U), half from recycled Phase I residues and half from Phase II ore.
- Phase II operations commenced production ahead of schedule.
- Production from 1980 to the end of 1984 is more than 10 million pounds of U_3O_8 (3 800 tonnes U).

Phase I of the Cluff Lake mine operation began in 1980 and was completed in 1984, producing 8.56 million pounds U_3O_8 (3 300 tonnes U). Phase II began production two months ahead of schedule in August at an annual capacity of approximately 2.5 million pounds U_3O_8 (960 tonnes U). By year-end the plant was operating at nominal capacity with approximately 97% recovery. Phase II capital and development costs will total $114.1 million, 12% under budget. Current recoverable reserves of the five orebodies at Cluff Lake are approximately 35 million pounds of U_3O_8 (13 800 tonnes U). Adding to the reserve position is the new Dominique-Janine open pit deposit, discovered in 1984.

Cluff Open Pit: Of the five orebodies, one development in Phase II, two are open pit and three are underground.



D' orebody, now decommissioned, produced more than 10 million lbs. U_3O_8.

Refitting the mill at Cluff Lake allows the processing of larger quantities of low grade ore.

Development Projects

Cigar Lake Project

The Cigar Lake minieralization occurs at an average depth of 430 m (1400 feet) and in more than one rich pod. In 1984 SMDC and its partners Cogema Canada, the operator of the project, and Idemitsu Uranium Exploration Canada Ltd. conducted a program of engineering pre-development work that has resulted in a much clearer understanding of the deposit as well as the surrounding geological domain. Geotechnical studies have provided valuable information about fractures, strength, porosity and clay content of the deposit. Hydrological studies concentrated on precipitation, stream and lake measurements as well as various borehole and laboratory tests. A number of alternative mining concepts are being examined as part of a preliminary study of the deposit.

Work over the next 3-4 years will concentrate on selecting potential mining methods suitable for developing this rich underground deposit. Field tests may be required. The owners have decided that this work will be carried out by a joint venture operating company called the Cigar Lake Mining Corporation (CLMC). CLMC will be established in 1985 and will operate with staff from each of the three partners from a Saskatoon base.

Star Lake Project

During the year, SMDC and Starrex Mining Corporation, partners in the Star Lake project, completed a pre-development feasibility study based on a mill throughput of 220 tons (200 tonnes) per day.

The study envisages an underground mine with conventional decline access. The orebody, just below muskeg, is nearly vertical in attitude and extends about 186 m (600 feet) below the surface. It is 78 m (250 feet) long and up to 14 m (45 feet) wide. The mill circuit requires fine grinding followed by conventional leaching with a carbon-in-pulp recovery system. The product at site will be dore bullion that is approximately 93% pure gold. Total production would be approximately 33 000 ounces of gold per year (1 026 000 grams per year).

The environmental study program, initiated by SMDC in November, 1983, has completed 14 months of baseline data gathering. This information will be available as a data base for the environmental impact assessment study to be filed in 1985.

If development proceeds at the rate and scale that the feasibility study suggests, the project could be in production within 10 months after the regulatory approvals are granted. Detailed engineering work will continue during the first half of 1985 along with other on-going development studies.

Cigar Lake camp

Star Lake camp

Exploration

Highlights

- Further delineation drilling at Cigar Lake confirmed this deposit as the world's largest high grade uranium orebody.
- New discoveries of uranium mineralization were made during the year on two other projects at the Dominique-Janine and Sand Lake locations.
- A number of farmout arrangements were completed, attracting substantial new partners, including European and Canadian companies.
- SMDC's drilling on the Star Lake gold property established a reserve of sufficient size and grade to be considered for development.

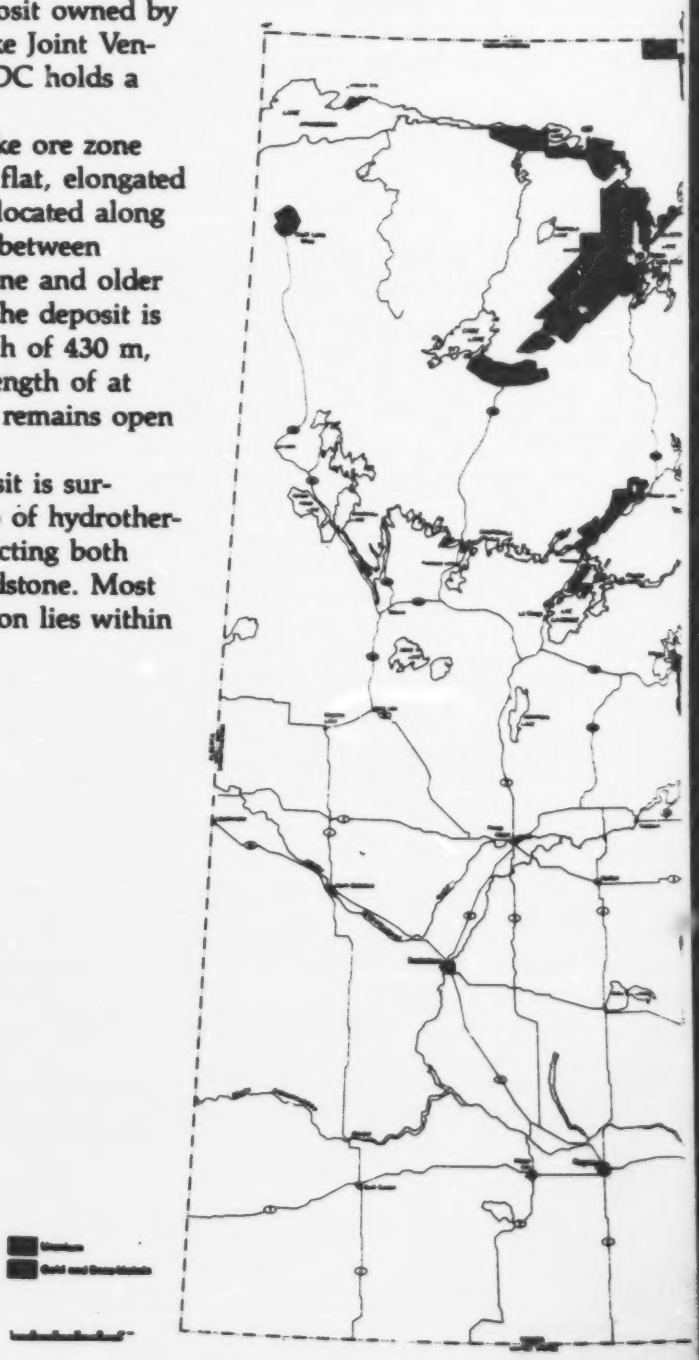
Uranium

Cigar Lake

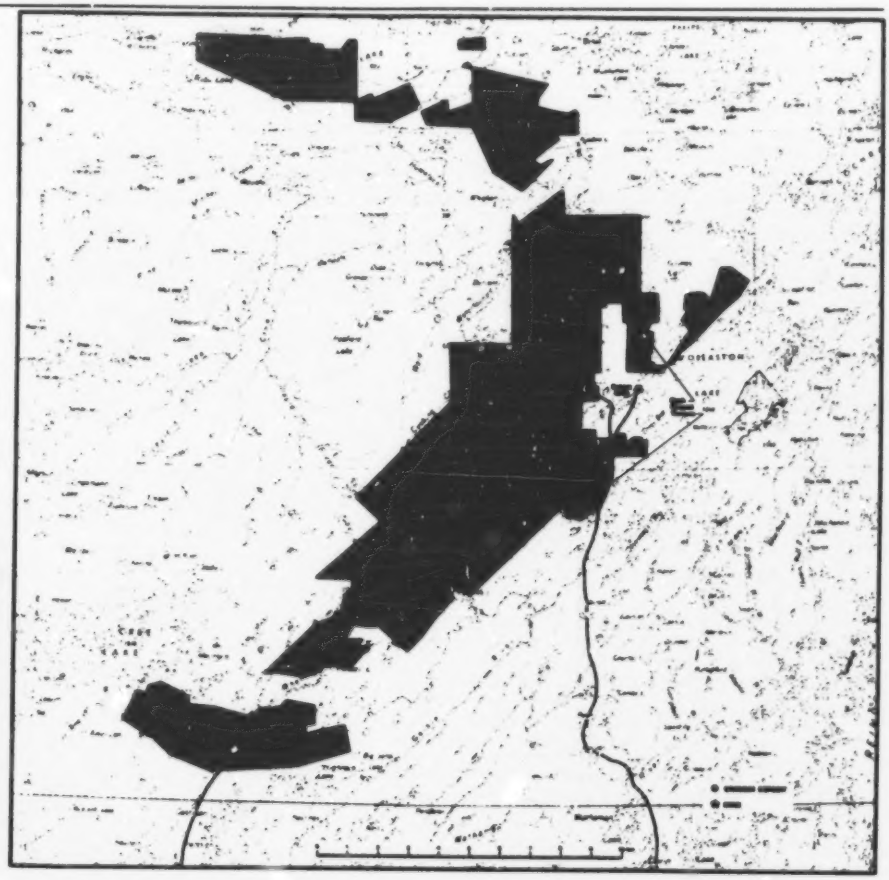
Diamond drilling continued through the year on the Cigar Lake uranium deposit owned by the Waterbury Lake Joint Venture in which SMDC holds a 50.75% interest.

The Cigar Lake ore zone has the form of a flat, elongated lens 1-20 m thick located along the unconformity between Athabasca sandstone and older basement rocks. The deposit is at an average depth of 430 m, has an indicated length of at least 1850 m, and remains open to the west.

The ore deposit is surrounded by a halo of hydrothermal alteration affecting both basement and sandstone. Most of the mineralization lies within the sandstone and appears to show good continuity. The main mineral association is uranite and nickel-cobalt arsenides.



Map: Uranium properties.



Basic geological field measurements remain an essential part of our exploration program.

Map: Major SMDC exploration projects.

In-place reserves have been estimated by geostatistical methods for the 650 m long "main pod" of high-grade ore, based on drill holes on a 20 by 50 m grid. Reserves are estimated at 285 million pounds at an average grade of 14.0% U_3O_8 (or 110,000 metric tonnes of uranium at a grade of 12% U). Additional inferred reserves in the western part of the deposit are in the order of 100 million pounds at an average grade of nearly 5% U_3O_8 (or 38,000 metric tonnes of uranium at a grade of about 4% U).

Other Uranium Projects

The exploration program managed by Amok Ltd/Ltée at the Cluff Lake mining site was successful in discovering a new area of near-surface uranium mineralization designated as the Dominique-Janine deposit. The mineralized area, in basement rocks, about 200 m long and up to 70 m in width, has been percussion drilled on a nominal 10 by 20 m spacing. Further test work including diamond drilling will be required to determine the grade of uranium present and to complete a reserves estimate.

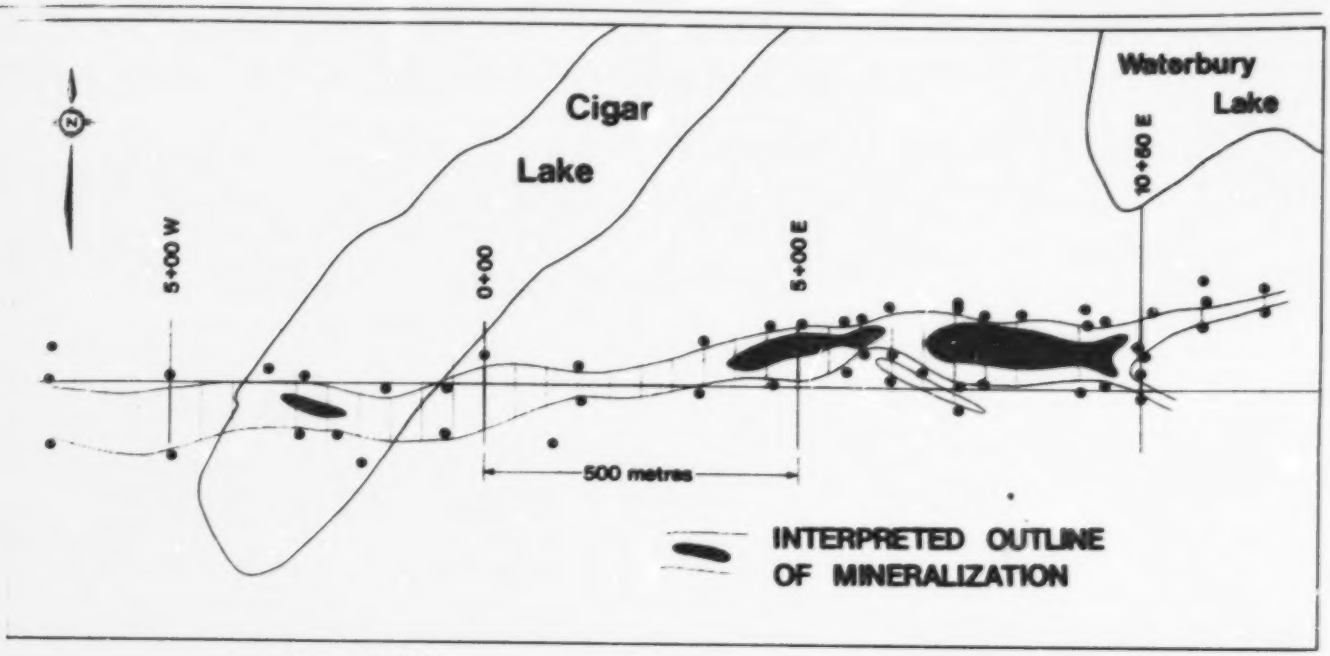
Dominique-Janine is located one kilometre southwest of the Dominique-Peter deposit currently being prepared for underground development, and about four kilometres by existing road east of the mill. SMDC has a 20% interest in this project.

Exploration drilling continued on the Saskatchewan Mineral Venture project located near the Rabbit Lake mine. This joint venture operated by Eldor Resources Limited owns the undeveloped Eagle Point North deposit in which SMDC holds a 33⅓% interest. Previous drilling indicated geological reserves of about 38 million pounds at a grade of 1.9% U_3O_8 (14 600 tonnes U at a grade of 1.6% U).

Systematic exploration including a major drilling component continued on the Cree-Zimmer project which surrounds the Key Lake mine. SMDC owns a 50% interest in this project operated by Uranerz Exploration and Mining Limited.

The Studer-Umpherville joint venture operated by AGIP Canada Ltd. intersected substantial grades and thicknesses of uranium mineralization in a number of drill holes at the Sand Lake location. This mineralization is related to the pre-Athabasca unconformity at a depth of about 200 m. Further drilling will be required to determine whether or not this discovery may have economic size. SMDC has a 40% interest in the project.

Drilling also continued on the Dawn Lake and McArthur River projects and on several other projects operated by the Corporation or its partners in the eastern part of the Athabasca Basin.



Map: Cigar Lake drill hole location map.

Idemitsu Uranium Exploration Canada Ltd., a partner in the Cigar Lake joint venture, visits the exploration camp.

By year end, approximately 140 holes were diamond drilled on the Cigar Lake ore zone.

Gold and Base Metals

During the year SMDC participated in twelve gold projects and in six projects directed mainly toward base metals, all within Saskatchewan. SMDC operated a majority of the gold projects and one of the base metals projects. The Corporation also held non-participating interests in one active gold exploration project in each of British Columbia and Manitoba.

Star Lake Project

Drilling in the first half of 1984 at the Star Lake 21 Zone established a probable, in place reserve of 230,000 tons grading 0.5 oz. gold per ton (200 000 tonnes at 15.55 grams of gold per tonne), to a depth of 180 m. Based on this result the joint venture authorized a preliminary feasibility study by the SMDC Mining and Engineering Branch. This study, based on a 220 ton (200 tonnes) per day underground mine and mill, was completed, together with bench scale process tests and base line environmental studies. A development decision will be taken in 1985.

Exploration activities included drilling which has established additional reserve potential at several other locations on the property including the Kahn 18 and Kahn 28 structures near the 21 Zone orebody and also the Rush Lake structure 1300 m to the north.

The Star Lake property is located 137 km by road northeast of La Ronge. The project is owned equally by SMDC and Starrex Mining Corporation.

Other Projects

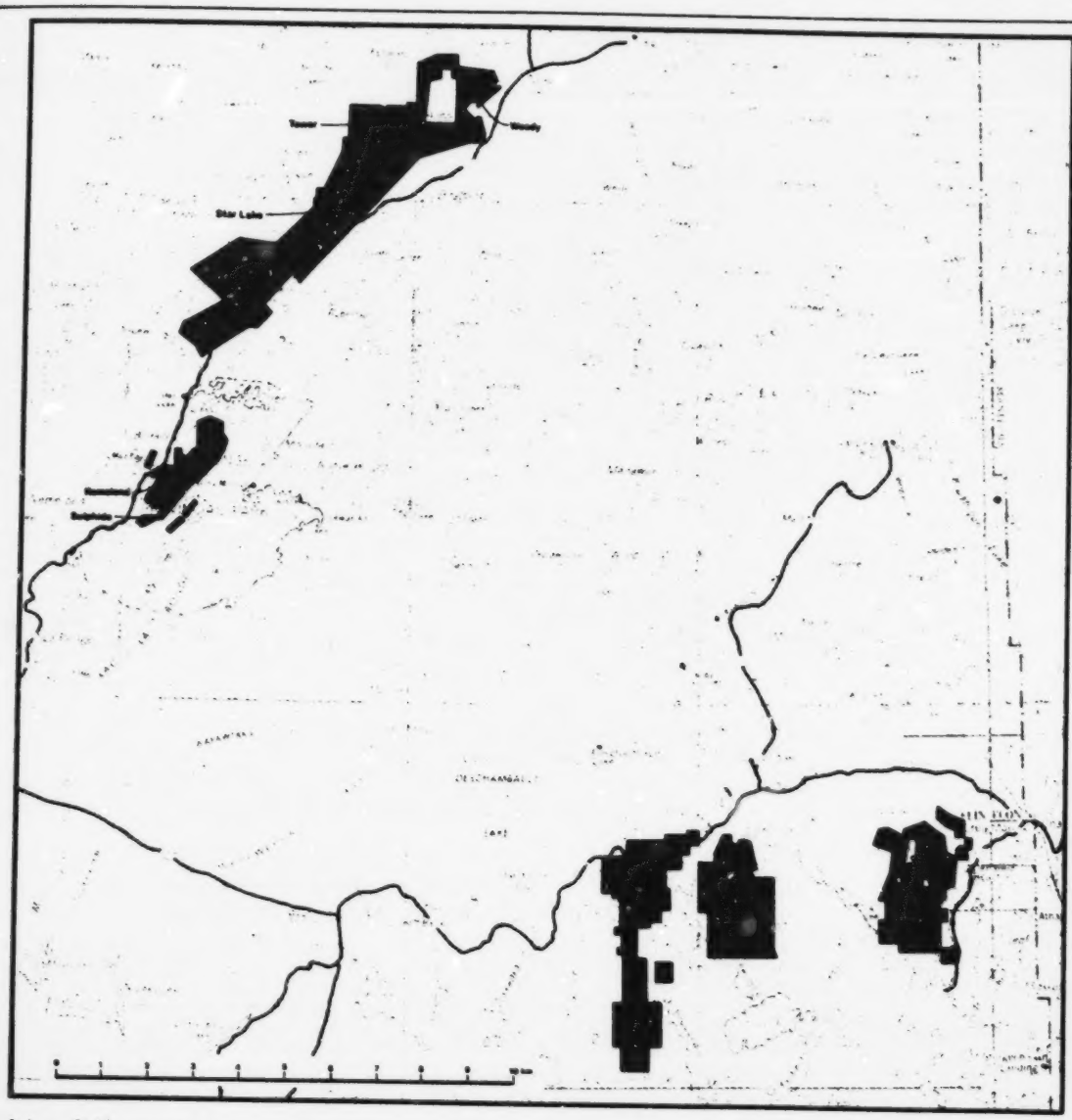
Prospecting activities and limited diamond drilling during the year on the Neyrinck project has confirmed the gold potential of this large property (approximately 204,000 acres). The Neyrinck project surrounds the Star Lake property and extends for about 70 km along the favourable greenstone belt. The Corporation has a 40% interest in this joint venture project.

During the winter SMDC drilled several holes on the Sulphide Lake gold project, located about 40 km northeast of La Ronge. This drilling confirmed the results of drilling in the 1940's by a previous owner who reported reserves of approximately 150,000 tons, grading 0.22 ounces gold per ton (136 000 tonnes at 6.85 grams per tonne). Summer prospecting also indicated that additional gold potential exists in volcano-sedimentary rocks elsewhere on the property.

Prospecting activities on the Preview Lake project, located adjacent to the Sulphide Lake property, confirmed gold mineralization in a number of old trenches and in some new locations. Drilling late in the year at the Ramsland Lake location intersected significant gold values in several drill holes. The better intersections, in sulphide-rich layers, were 0.1 ounces gold over 4.35 m, 0.3 ounces over 1.5 m and 0.88 ounces over 0.5 m.

Exploration continued on a gold joint venture in the Amisk Lake area, southwest of Flin Flon, in which SMDC holds a 50 per cent interest and on several other gold projects in Saskatchewan.

SMDC geologist and engineer study the potential mine and mill sites at Star Lake.



Map: Gold properties.

The Star Lake orebody is 250 ft. long and 45 ft. wide. It is vertical and extends 600 feet below surface.

Financial Statements

Management's Responsibility for Financial Reporting in the Annual Report

Management has prepared the financial statements of the Corporation in accordance with generally accepted accounting principles applied on a consistent basis. The financial data included elsewhere in this report is consistent with the financial statements and the underlying information from which these financial statements were prepared.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfill this responsibility, the Corporation maintains appropriate systems of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation.

The auditors have reviewed the systems of internal control and examined the financial statements in accordance with generally accepted auditing standards to enable them to express their opinion on the financial statements. Their report as auditors is set forth on page 21.

The statements have been examined and approved by the Board of Directors.

On behalf of the Corporation,

Vice President
Finance and Administration

SMDC relies on many professional groups within the corporation. Our accounting department provides one of these essential services.

Auditors' Report

To the Members of
The Legislative Assembly,
Province of Saskatchewan

We have examined the consolidated statement of financial position of Saskatchewan Mining Development Corporation as at December 31, 1984 and the consolidated statements of operations and reinvested earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon

Saskatoon, Canada,
March 8, 1985.

Chartered Accountants

Consolidated Statement of Operations and Reinvested Earnings

Saskatchewan Mining Development Corporation
Year ended December 31, 1984

	1984	1983
	(thousands of dollars)	
Revenue:		
Sales of concentrates	$133,274	$13,504
Interest from short-term investments	650	2,463
Other	695	501
Gain on sale of mineral properties	—	1,770
	134,619	18,238
Expenses:		
Operating	28,029	4,174
Depreciation and amortization	31,417	7,568
Provincial royalties and taxes	4,799	621
Selling and administrative	2,775	—
Exploration project areas written off	6,009	3,776
Interest expense (note 3)	46,352	—
	119,381	16,139
Net earnings	15,238	2,099
Reinvested earnings, beginning of year	909	10
Deduct dividend	7,600	1,200
Reinvested earnings, end of year	$ 8,547	$ 909

(See accompanying notes)

Consolidated Statement of Financial Position

Saskatchewan Mining Development Corporation
December 31, 1984

	1984	1983
	(thousands of dollars)	
Assets		
Current:		
Cash and short-term deposits	$ 32,194	$ 5,368
Due from joint venture partners	765	586
Accounts receivable	23,692	1,801
Inventories (note 4)	15,086	5,100
Prepaid expenses	111	104
	71,848	13,959
Property, plant and equipment (note 5)	814,614	786,776
Deferred charges (note 6)	32,632	12,250
	$919,094	$812,985
Liabilities and Province's Equity		
Current:		
Bank indebtedness	$ —	$ 7,466
Due to joint venture partners	927	732
Accounts payable	9,191	15,828
Deferred revenue (note 7)	26,462	—
Dividend payable	7,600	1,200
Accrued interest on long-term debt	34,934	32,452
Long-term debt due within one year	65,000	—
	144,114	57,678
Provision for restoration costs	1,298	400
Deferred revenue (note 7)	35,963	62,524
Long-term debt (note 8)	479,331	441,633
Total liabilities	660,706	562,235
Province of Saskatchewan's equity:		
Advances (note 9)	249,841	249,841
Reinvested earnings	8,547	909
	258,388	250,750
	$919,094	$812,985

(See accompanying notes)
Approved by the Board of Directors
Director: E. W. Barootes
Director: J. H. Morrison

Consolidated Statement of Changes in Financial Position

Saskatchewan Mining Development Corporation
Year ended December 31, 1984

	1984	1983
	(thousands of dollars)	
Sources of cash:		
Cash provided by operations		
Sales of concentrates	$123,756	$ 13,504
Operating, selling and administrative expenses	(29,906)	(4,049)
Provincial royalties and taxes	(4,799)	(621)
	89,051	8,834
Increase (decrease) in operating working capital		
Due from joint venture partners	(179)	(132)
Accounts receivable	(21,891)	9,935
Inventories	(9,986)	(1,009)
Prepaid expenses	(7)	249
Accounts payable	(6,637)	(2,770)
Due to joint venture partners	195	(901)
	(38,505)	5,372
Cash provided by operations	50,546	14,206
Other sources of cash		
Proceeds on disposal of fixed assets	—	23
Proceeds on sale of mineral properties	—	3,350
Deferred revenue	5,444	48,540
Long-term debt	78,960	91,815
Interest revenue	650	2,463
Other income	695	501
	85,749	146,692
Total sources of cash	136,295	160,898
Uses of cash:		
Cash invested in property, plant and equipment	28,266	124,820
Cash committed to financing activities		
Deferred financing costs of new issue	3,902	1,839
Interest	69,635	52,480
Dividends	1,200	1,200
	74,737	55,519
Total uses of cash	103,003	180,339
Increase (decrease) in cash	33,292	(19,441)
Cash (Deficiency) beginning of year	(1,098)	18,343
Cash (Deficiency) end of year	$ 32,194	$ (1,098)

Note: Cash includes short-term deposits and bank indebtedness.
(See accompanying notes)

Notes to Consolidated Financial Statements

Saskatchewan Mining Development Corporation
December 31, 1984

1. Accounting Policies

This summary of significant accounting policies is a description of the accounting methods and practices that have been used in the preparation of these consolidated financial statements.

Consolidation Principles

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary SMD Mining Co. Ltd.

Joint Ventures

The Corporation's assets and liabilities relate primarily to its 20% interest in the Cluff Mining partnership, its 50% interest in the joint venture operated by the Key Lake Mining Corporation and its interests in other joint ventures varying from 10% to 85%. These interests are accounted for by the proportionate consolidation method.

Inventories

Broken ore and concentrates are valued at the lower of production cost and estimated net realizable value. Supplies are valued at the lower of average cost and replacement value.

Production Facilities and Equipment and Depreciation

Production facilities and equipment are carried at cost and are depreciated by the unit of production method over the estimated economically recoverable ore reserves or by the straight line method if the estimated useful life of the asset is less than the estimated mine life.

Other facilities and equipment are carried at cost and are depreciated by the straight line method at rates varying from 10.0% to 33.3%.

Deferred Mineral Property Costs and Amortization

Each group of contiguous mineral properties is accounted for separately and is designated as a project area. All acquisition of mineral properties, exploration, development and other expenditures relating to each project area are deferred and carried at cost with the intention that they will be amortized by charges against earnings from future mining operations. At such time as it is deemed that a project area does not contain economically recoverable ore reserves the related deferred expenses are written off to earnings.

The decision to develop a producing mine property within a project area will be based on an assessment of the prevailing conditions at that time. No depreciation or amortization will be provided on such a property until commercial production commences. After a mine property has been brought into commercial production, any additional work on that property will be expensed as incurred, except for large development programs, which will be deferred and amortized over the related remaining reserves.

Deferred mineral property costs are amortized by the unit of production method based on the property's estimated economically recoverable ore reserves.

Capitalization of Interest

Interest is capitalized on expenditures related to construction or development projects. Capitalization is discontinued when the asset is ready for its intended use or development ceases.

Debt Financing Costs

Long term debt premium, discount and issue costs are deferred and amortized over the term of the issues to which they relate. The amortization is included with interest as a cost of borrowing.

Foreign Exchange Translation

Current assets, current liabilities and long-term debt denominated in foreign currencies are translated into Canadian dollars at the year-end rate; revenue and expenses are translated at rates in effect during the year.

Foreign exchange gains or losses arising on translation of long-term debt are deferred and amortized over the remaining terms of the debt. The amortization is included with interest as a cost of borrowing. All other foreign exchange gains or losses are reflected in the consolidated statement of operations and reinvested earnings.

Notes to Consolidated Financial Statements

Saskatchewan Mining Development Corporation
December 31, 1984

2. Status of Saskatchewan Mining Development Corporation

The Corporation was established by Order-in-Council #865/74 dated June 4, 1974 and continued under the Saskatchewan Mining Development Corporation Act, 1977. The Corporation's accounts are included in the annual consolidated statements of Crown Investments Corporation of Saskatchewan.

3. Interest

	1984	1983
	(thousands of dollars)	
Interest on long-term debt	$72,117	$61,600
Interest paid with concentrates	3,975	—
Amortization of deferred financing costs	827	713
Amortization of foreign exchange losses	6,433	1,577
	83,352	63,890
Less interest capitalized	37,000	63,890
	$46,352	$ —

4. Inventories

	1984	1983
	(thousands of dollars)	
Broken ore and concentrates	$10,670	$ 2,696
Supplies	4,416	2,404
	$15,086	$ 5,100

5. Property, Plant and Equipment

	1984	1983
	(thousands of dollars)	
Producing properties		
Production facilities and equipment	$300,249	$ 18,084
Deferred mineral property costs	289,198	27,781
	589,447	45,865
Less accumulated depreciation and amortization	60,584	29,593
	528,863	16,272
Non-producing properties		
Exploration projects	170,693	163,280
Cluff Mining Phase II	—	111,972
Key Lake Project	—	399,659
Key Lake Deilmann orebody	115,058	95,593
	285,751	770,504
	$814,614	$786,776
Property, Plant and Equipment includes interest capitalized		
During the year	$ 37,000	$ 63,890
Since inception	$223,386	$186,386

6. Deferred Charges

	1984	1983
	(thousands of dollars)	
Deferred charges net of amortization consist of:		
Gains and losses arising on translation of long-term debt	$27,601	$ 8,079
Financing costs	5,031	4,171
	$32,632	$12,250

Notes to Consolidated Financial Statements

Saskatchewan Mining Development Corporation
December 31, 1984

7. Deferred Revenue

The Corporation has obligations under the terms of two product loan agreements.

The deferred revenue which represents 2,073,121 pounds of uranium concentrates borrowed and sold will be included in earnings as uranium concentrates are returned to the lender.

In order to borrow 1,923,121 pounds of uranium concentrates to be repaid subject to prior notice on or before December 31, 1986, the Corporation has obtained, as collateral, irrevocable letters of credit guaranteed by the Province of Saskatchewan, with a current maximum value of $60,000,000 U.S. If the Corporation should be unable to meet its obligations to return these borrowed concentrates in kind, the lender could, on demand, draw upon the letters of credit for its cost of purchasing substitute concentrates. The annual charge per pound is 6½% of the transaction value published by the Nuclear Exchange Corporation (NUEXCO) one month prior to loan anniversary, provided that the transaction value not exceed $25.00 U.S. or fall below $17.00 U.S. The Corporation is committed to repay 800,000 of these pounds of uranium concentrates during 1985.

The Corporation has additionally entered into a standby loan agreement whereby it can borrow up to 1,400,000 pounds of uranium concentrates, prior to December 1, 1985. As at December 31, 1984 the Corporation has borrowed 150,000 pounds of uranium concentrates under this agreement to be repaid subject to prior notice on or before December 31, 1991. If the Corporation should be unable to meet its obligations to return these borrowed concentrates in kind, the lender through its guarantor, may purchase concentrates from an outside party and the Corporation must reimburse the guarantor for all costs related to the purchase.

Interest includes charges for borrowed product.

8. Long-Term Debt

	1984	1983
	(thousands of dollars)	
Floating rate debenture Series A unconditionally guaranteed by the Province of Saskatchewan mature on March 1, 1985 subject to prior redemption with interest payable quarterly at a rate of ¼ of 1% less than the average prime rate of the Royal Bank of Canada.	$ 65,000	$ 65,000
Province of Saskatchewan notes of $100,000,000 U.S. mature on November 15, 1988 subject to prior redemption with interest at 16¼% payable annually.	132,170	124,440
Province of Saskatchewan notes of 150,000,000 Swiss francs fully hedged at $77,662,684 U.S. mature on March 1, 1988 with interest at 15⅛% payable annually.	102,647	96,643
Province of Saskatchewan notes of $50,000,000 U.S. mature on March 15, 1989 with interest at 16% payable annually.	66,085	62,220
Province of Saskatchewan notes of $60,000,000 U.S. mature on November 15, 1989 with interest at 11⅞% payable annually	79,302	—
Province of Saskatchewan notes of $75,000,000 U.S. mature on March 15, 1990 with interest at 10¾% payable annually.	99,127	93,330
	544,331	441,633
Less amount due within one year	65,000	—
	$479,331	$441,633

Notes to Consolidated Financial Statements

Saskatchewan Mining Development Corporation
December 31, 1984

9. Province of Saskatchewan's Equity

Advances are non-interest bearing and are repayable at the discretion of the Province. Advances to date have been obtained from:

	1984	1983
	(thousands of dollars)	
The Saskatchewan Heritage Fund	$218,700	$218,700
Crown Investments Corporation of Saskatchewan	31,141	31,141
	$249,841	$249,841

10. Commitments

The Corporation has financial commitments under various joint venture agreements it has entered into in the normal course of operation. The Corporation is required to pay its proportionate share of the exploration and development expenditures to maintain its interest in each joint venture.

11. Related Parties

Included in these financial statements are expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan crown controlled departments, agencies and corporations with which the Corporation is related.

Account balances resulting from these transactions are included in the statement of financial position and are settled on normal trade terms.

Other amounts due to related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

12. Remuneration of Directors and Senior Officers

The Corporation's seven directors (1983 — 7) received, in aggregate, $45,097 remuneration in 1984 (1983 — $30,922).

Sixteen senior officers (1983 — 16) received, in aggregate, $1,151,653 in salaries for 1984 (1983 — $1,055,567). Certain position were vacant for portions of 1983.

13. Segmented Information

a) Industry segment

The Corporation derives all of its sales revenue from the production and sale of uranium concentrates.

b) Sales of uranium concentrates

	1984	1983
	(thousands of dollars)	
Foreign	$116,394	$13,504
Domestic	16,880	—
	$133,274	$13,504

Directors and Management

Board of Directors

■ Allan Brigden
Kisbey, Saskatchewan

● Lorne Humphreys
Moose Jaw, Saskatchewan

●■ Herbert Morrison
Saskatoon, Saskatchewan

■ Walter Nelson
Avonlea, Saskatchewan

● Helen Swan
Saskatoon, Saskatchewan

SMDC Management

Roy Lloyd
President

Alf Bentley
Assistant to President

David Francis
Executive Vice President
Operations

Jim Bonny
Vice President
Marketing & Corporate
Development

▼ Arnold Hillier
Vice President
Finance & Administration

Don Somers
Vice President
Corporate Affairs

● *Audit Committee Members*
■ *Compensation Committee Members*
▼ *Corporate Secretary*